



Medicare modernization is a positive and much needed update to a health care program that helps millions of America's most vulnerable citizens. Medicare must evolve into the 21st century and provide more choices and better benefits, particularly long-overdue prescription drug coverage, to its beneficiaries. The new Medicare reform legislation makes significant strides in updating the program to make the best use of today's modern health care delivery methods to maximize the benefits for current and future participants.

Impact of Prescription Drug Provisions

The prescription drug provisions in the new Medicare law provide great assistance to Medicare beneficiaries. Under the new law, Pennsylvania's Medicare beneficiaries will gain the following benefits:

- The Bipartisan Agreement provides all of the 2,123,020 beneficiaries in Pennsylvania with access to a Medicare prescription drug benefit – for the first time in the history of the Medicare program – beginning in January 2006.
- Beginning in 2006, the Bipartisan Agreement will give 558,490 Medicare beneficiaries in Pennsylvania access to drug coverage they would not otherwise have and will improve coverage for many more.
- By June 2004, Pennsylvania residents will be eligible for Medicare-approved prescription drug discount cards, which will provide them with savings of between 10 and 25 percent off the retail price of most drugs.
- Beneficiaries with incomes of less than 135% of poverty (\$12,123 for individuals and \$16,362 for couples in 2003) who lack prescription drug coverage (including drug coverage under Medicaid) will get up to \$600 in annual assistance to help them afford their medicines, along with the discount card. That's a total of \$486,682,698 in

additional help for 405,569 Pennsylvania residents in 2004 and 2005. This will also provide substantial savings for Pennsylvania's PACE program – 157,754 Medicare beneficiaries enrolled in PACE will be eligible for the \$600 annual assistance if they enroll in the drug card, potentially saving the PACE program \$94,652,400.

- Beginning in 2006, all 2,123,020 Medicare beneficiaries living in Pennsylvania will be eligible to get prescription drug coverage through a Medicare-approved plan. In exchange for a monthly premium of about \$35, seniors who are now paying the full retail price for prescription drugs will be able to cut their drug costs roughly in half. In many cases, they'll save more than 50 percent on what they pay for their prescription medicines.
- 594,562 beneficiaries in Pennsylvania who have limited savings and low incomes (generally below \$12,123 for individuals and \$16,232 for couples) will qualify for even more generous coverage. They will pay no premium for their prescription drug coverage, and they will be responsible for a nominal co-payment (no more than \$2 for generic drugs or \$5 for brand name drugs).
- 167,781 additional low-income beneficiaries in Pennsylvania with limited savings and incomes below 150% of poverty (\$13,470 for individuals and \$18,180 for couples in 2003) will qualify for reduced premiums, a \$50 deductible, 15% coinsurance, and no gaps in coverage.
- Additionally, Medicare, instead of Medicaid, will now assume the prescription drug costs of 255,476 Pennsylvania beneficiaries who are eligible for both Medicare and Medicaid. These seniors generally will pay \$1 for generic drugs or \$3 for brand name drugs. Seniors in nursing homes will pay nothing. This will save Pennsylvania over \$1.2 billion over 8 years on prescription drug coverage for its Medicaid population.

Impact on State Pharmacy Assistance Program (PACE)

Pennsylvania will gain substantial savings in its PACE program when the prescription drug benefit begins in 2006.

- All 224,525 beneficiaries currently enrolled in PACE will be eligible for the new prescription drug benefit, and Pennsylvanians will no longer have to spend \$507,000,000 annually to pay prescription drug costs for Medicare beneficiaries.
- Pennsylvania could choose to use part of the \$507,000,000 in annual PACE savings to provide supplemental prescription drug coverage to the new Medicare Part D benefit for those drug costs not covered by Medicare by purchasing such additional benefits from any qualifying Medicare prescription drug plan, or by providing its own state supplemental benefit program.
- Pennsylvania could also choose to use its savings to pay any cost sharing that may be required of the beneficiaries' Part D plan.

Impact of Competition

Under the new Medicare prescription drug bill, competition will be a two-pronged approach to provide more choices and better benefits. Medicare Advantage plans will operate on a local level similar to Medicare+Choice plans. However Regional Medicare Advantage plans will be added to provide more PPO-like options with guaranteed coverage across states.

- This is especially beneficial to rural states like Pennsylvania that saw an exodus of Medicare+Choice plans over the past few years.
- Under the Regional Medicare Advantage plan, all rural areas will be included in a regional market, and therefore guaranteed a Medicare Advantage plan option.
- Pennsylvania currently has 16 organizations offering Medicare+Choice plans. However, under the model established in the new Medicare prescription drug law, it is anticipated that the Commonwealth will maintain at least two Medicare Advantage plans at the regional level. There may be some additional plans operating at the local level.

Impact on Providers

Under the new Medicare prescription drug law, Inpatient Prospective Payment System (IPPS) rates to hospitals will be adjusted to provide more equitable and appropriate payments for providers nationwide, which will ensure that providers continue to treat Medicare patients and, in turn, will ensure access to care for beneficiaries.

- Specifically, states with rural areas like Pennsylvania will benefit from the provision in Title IV that equalizes urban and rural standardized payment amounts under the Medicare Hospital IPPS because payment rates for rural hospitals will increase to match the highest payment rate for large urban hospitals.
- Additionally, the percentage of a hospital payment that is adjusted for local wage variations is being decreased to 62%. This benefits rural hospitals that generally have lower local wage levels.
- In Pennsylvania, these two provisions will add approximately \$54.5 million for providers.
- In addition, the legislation will reinstate the periodic interim payments for Critical Access Hospitals, eliminate the barrier for receiving the physician bonus, and authorize \$35 million a year in Rural Flexibility Grants.

Impact on State Government

As previously noted, the legislation will shift the prescription drug expenses for dual eligible Medicaid beneficiaries from the state to the federal government, providing considerable fiscal relief to states.

- This shift comes in addition to the fiscal assistance given to states in the Jobs and Growth Tax Relief Reconciliation Act of 2003, which provided a temporary increase in the percentage rate for Federal Medicaid matching funds (FMAP) for five calendar quarters, beginning April 1, 2003 and ending June 30, 2004.
- For Pennsylvania, the Jobs and Growth bill will result in a total of \$479,236,000 in FMAP funds for calendar years 2003 and 2004.

Besides the aforementioned fiscal relief, the new Medicare law provides a temporary one-year 16% increase in DSH allotments for FY 2004 without regard to the 12% limit. Thereafter, allotments stay at the FY 2004 level subject to the 12% limit until the year in which current law “catches up” with the new proposal’s allotments, at which point allotment levels are those of the previous year increased by CPI-U subject to the 12% limit. Allotments for certain extremely low DSH states would be increased by 16% for each of five years FY 2004 through FY 2008 at which point allotment levels would be those for the previous year increased by the CPI-U.

- This adjustment will result in a \$247 million increase in the federal allotment for Pennsylvania.

Impact on Medigap Insurance

The new Medicare law will also provide a “real” comprehensive prescription drug benefit to the 70,970 beneficiaries in Pennsylvania who have previously been purchasing a very modest benefit through the only Medigap plans available to them (I, J, and K).

- These individuals will be eligible for the new standard prescription drug benefit available to all Medicare beneficiaries with an actuarial value of \$1,663.
- Of this total amount the federal government will support 74 percent or \$1,231.

